

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 /104 W

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R 021914Z JUL 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3363

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L LONDON 10413

E.O. 11652: GDS

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: BP AGREES TO MAJORITY STATE
PARTICIPATION

REF: LONDON 9122, LONDON 6947, LONDON 4760

1. CULMINATING MORE THAN A YEAR OF DISCUSSION, BRITISH PETROLEUM, SECSTATE FOR ENERGY, AND CHAIRMAN OF BRITISH NATIONAL OIL CORPORATION (BNOC) HAVE SIGNED A MEMORANDUM OF PRINCIPLES SETTING FORTH MAJOR ASPECTS OF A DETAILED PARTICIPATION AGREEMENT TO BE NEGOTIATED IN COMING MONTHS. BASIC POINTS INVOLVED ARE A) AN EXCHANGE OF BP MIDDLE EAST OR OTHER HEAVY CRUDE FOR NORTH SEA CRUDE TO WHICH BNOC WILL BE ENTITLED UNDER BP OR OTHER PARTICIPATION AGREEMENTS, AND B) EDUCATION OF BNOC IN DOWNSTREAM REFINING AND MARKETING ACTIVITIES THROUGH PRESENCE OF NON-VOTING OFFICIAL AT MEETINGS OF BP OIL LTD. AND BY TRAINING OF BNOC STAFF PERSONNEL.

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2. WITH RESPECT TO EXCHANGE OF CRUDE OIL, BNOC IS TO

HAVE OPTION TO TAKE 51 PERCENT OF BP'S NORTH SEA CRUDE PRODUCTION NET OF ROYALTY FROM JANUARY 1, 1977. BP OBTAINS A RIGHT TO BUY BACK ALL OF OPTIONABLE OIL FOR 1977-78; AND BETWEEN 1979 AND 1981 BNOC AGREES TO SELL A MAJOR PORTION OF ITS PARTICIPATION OIL BACK TO BP PROVIDING LATTER MAKES AVAILABLE EQUIVALENT VALUE OF HEAVIER CRUDES PRODUCED FROM BP'S MIDDLE EAST OR OTHER SOURCES. THEREAFTER FROM 1982 UNTIL 1989 BNOC AND BP WILL EXCHANGE SUFFICIENT CRUDE TO ENSURE LATTER HAS ADEQUATE NORTH SEA SUPPLIES.

3. SECSTATE BENN IS OBVIOUSLY PLEASED WITH BP DEAL WHICH PAVES WAY FOR SIMILAR AGREEMENTS WITH OTHER COMPANIES (READ SHELL AND ESSO) ALTHOUGH HE NOTED BP AGREEMENT

WOULD NOT BE USED AS AN EXACT MODEL. BNOC CHAIRMAN LORD KEARTON STATED THAT HIS FLEDGLING COMPANY DOES NOT INTEND TO BEGIN INDEPENDENT REFINING AND MARKETING OPERATIONS BEFORE 1980 ALTHOUGH IT MAINTAINS THE RIGHT TO ENTER INTO JOINT COMMERCIAL OPERATIONS IN THESE FIELDS. BP CHAIRMAN DAVID STEEL SAID DEAL IS "COMMERCIALY SATISFACTORY" AND THAT THERE WOULD BE NO ADVERSE REPERCUSSIONS ON BP'S RELATIONS WITH FOREIGN GOVERNMENTS AND COMPANIES.

4. VERY PRELIMINARY INDUSTRY REACTION HAS BEEN MIXED. ONE US COMPANY SOURCE COMMENTED ON THE BASIS OF VERY SCANTY KNOWLEDGE HE WAS INCLINED TO CONSIDER BP DEAL FAVORABLE INASMUCH AS IT APPEARED TO OPEN WAY FOR INCREASED FLEXIBILITY IN DISPOSITION AND AVAILABILITY OF NORTH SEA CRUDE. HE RESERVED JUDGMENT HOWEVER ON BNOC PRESENCE ON OPERATORS, REFINERS, AND MARKETING COMMITTEES, VOTING RIGHTS, FINANCING PROVISIONS, ETC.

5. ANOTHER US COMPANY OFFICIAL WAS SHARPLY NEGATIVE AND NOTED HIS DISAPPOINTMENT IN BP FOR HAVING CAVED IN UNDER PRESSURE FROM SECSTATE BENN.

6. COMMENT: SECSTATE BENN HAS BEEN PUSHING HARD DURING RECENT WEEKS TO MAKE PROGRESS ON PARTICIPATION, ABOVE ALL WITH BIG THREE BP, SHELL AND ESSO, IN ORDER TO
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ENSURE THAT FIFTH LICENSING ROUND DOES NOT RISK BEING FIASCO. BY OBTAINING DETAILED MEMORANDUM OF PRINCIPLES FROM BP HE HAS EFFECTIVELY ACHIEVED HIS OBJECTIVE AND AT LEAST FOR THE MOMENT OUTFLANKED SHELL AND ESSO. WE SUSPECT BP CONCLUDED THAT DISCRETION WAS BETTER PART OF VALOR ESPECIALLY INASMUCH AS GOVERNMENT DECISION HAS NOT YET BEEN MADE ON DISPOSITION OF 20 PERCENT STAKE IN BP PREVIOUSLY HELD BY BURMAH AND CURRENTLY IN HANDS OF

BANK OF ENGLAND.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, NEGOTIATIONS, PETROLEUM CONCESSIONS, OFFSHORE OIL FIELDS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON10413
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760258-0238
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760795/aaaadgaw.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 LONDON 9122, 76 LONDON 6947, 76 LONDON 4760
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2004 by greeneet>; APPROVED <13 AUG 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NORTH SEA OIL: BP AGREES TO MAJORITY STATE PARTICIPATION
TAGS: ENRG, UK, BP, BNOC, ESSO EUROPE, SHELL INTERNATIONAL, (BENN, ANTHONY)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006